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SUBJECT: ITALY'S EDISON: IRANIAN GAS NOW, NUCLEAR POWER
LATER

MILAN 00000068 001.4 OF 002

Classified By: CG Daniel Weygandt. Reasons 1.4 (b) and (d).

Summary

¶1. (C) Edison CEO Quadrino told the Consul General that Europe will need to increase natural gas imports dramatically to meet increased demand and counter predicted supply shortages through 2020. New nuclear energy production is the long-term answer, but cannot realistically be brought online soon enough to improve the situation through 2020. Russia, Algeria, Qatar and Azerbaijan will be Edison's primary sources, but Quadrino is actively seeking deals with Iran with the GOI's knowledge and consent. Italian energy companies, like Edison, will continue to do business with Iran absent GOI objections. End summary.

European Energy Needs Through 2020

¶2. (SBU) The Consul General recently met Umberto Quadrino, CEO of Edison at Edison's headquarters in Milan. Quadrino described the EU energy scenario in general for the next 12 years. The EU will face a shortage of natural gas due to the North Sea wells' eventual exhaustion. In the meantime, demand for natural gas will go up by 150 billion cubic meters and supply will drop by 100 billion (creating an overall shortage of 250 billion cubic meters). In addition, several coal and nuclear power stations in Europe will close. The only two new nuclear reactors under construction in Europe (France and Finland) will take approximately ten years to be completed. Consequently, meeting European electricity demand through 2020, according to Quadrino, can only be based on a large scale increase in the use of natural gas products. The EU countries will need to double their natural gas imports; however, high costs and the time for building the related infrastructure must be taken into account.

Sources of Natural Gas

¶3. (SBU) Edison will import natural gas from Russia (both South Stream and Nord Stream projects), Algeria, Qatar, and

Azerbaijan. ENI and other major energy companies have monopolies on Libyan and Saudi Arabia production that would be hard for Edison to break. China is particularly aggressive in Africa, recently opening a \$50 billion line of credit towards Nigeria, making it hard for Edison to make inroads. Edison is also the Italian investor in the TGI pipeline to bring Caspian gas to the Western European market.

Iran is Edison's Preferred Source

¶4. (C) Quadrino declared that Europe must look to Iran, Iraq and the Persian Gulf to increase its natural gas imports. He further cautioned that if European countries do not buy natural gas from Iran, then Russia, China and India will. Quadrino sees Iran as not only the most promising source of natural gas but as the essential source for the future of European energy companies. Though he recognizes the political sensitivities to doing business with Iran, he sees no point in putting Iranian gas aside when other buyers are ready to take their place.

¶5. (C) Quadrino was upfront about Edison's intent to invest USD 5-6 billion in the Iranian fields. Quadrino is well aware of the potential risk of the investment and knows that he will be accountable to shareholders in case of losses, but still he is ready to take the risk. He noted that he has been and will continue to be completely transparent regarding Edison's dealings with Iran. Quadrino has been in constant talks with the MFA at high levels and with Enrico Letta, Secretary General of Premier Romano Prodi's Office during

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negotiations with Iran. He said he will continue to engage the newly elected government in the same manner. Edison expects to finalize its agreement with the Iranian Government by the end of July 2008, and expects the project will be

MILAN 00000068 002.2 OF 002

completed by 2010.

Nuclear is the Long-Term Solution

¶6. (C) Quadrino was clear that nuclear energy represents the only promising and concrete solution to Italy's long-term energy problems. The EU resolved to reduce greenhouse gas emissions by 20 percent, reduce energy consumption by 20 percent, and obtain 20 percent of their energy from renewable energy sources by 2020. The binding targets vary from member state to member state to meet the overall EU goal. The target for renewable energy sources for Italy is 17 percent. Quadrino noted that Environment Minister Alfonso Pecoraro Scanio's energy plan (presented in 2007) is extremely costly and insufficient to solve future energy needs because it is largely based on expensive incentives to solar energy production and renewable sources that, even when fully exploited, are inadequate to meet Italy's future demand. According to Quadrino, to meet 900 KWH of electricity demand using photovoltaic panels, Italy would need 41 million square meters of solar panels (in all of Europe at the end of 2006, the total number of existing solar panels was 19 million square meters).

¶7. (C) Similarly, Quadrino was skeptical on Giulio Tremonti's (rumored to be Berlusconi's choice for Minister of Economy) recent proposal to building a nuclear reactor at Durazzo, Albania. He worries that local environmental opposition could derail the project (the Greek government has already protested) and notes that transporting electricity over long distances is still not efficient or cost effective. He believes nuclear reactors need to be built where the energy is needed. He would welcome USG efforts to encourage Italy to use nuclear power.

Comment

¶8. (C) Quadrino is an open and engaging interlocutor who makes a forceful business case for energy deals with Iran while acknowledging the political sensitivities. Further, he seems to be in lock-step with Italian government officials on his investments in Iran. His comments underscore the need for USG officials to engage the Italian government directly on reducing Italian business with Iran. End comment.

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